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MICHIGAN HOUSE OF REPRESENTATIVES

JOHN GARFIELD

STATE REPRESENTATIVE

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CONSERVATION, FORESTRY, AND OUTDOOR RECREATION
GOVERNMENT OPERATIONS

March 4, 2005

Representative Mike Nofs
124 North Capitol Avenue
Lansing, Michigan 48909

Dear Chairman Nofs:

I offer the following comments to you for your report back to the full committee regarding the subcommittee assignment on the status of expanded local area calling:

The Subcommittee on Telecommunications & Technology met on March 2, 2005 to address the status of adjacent local calling areas in Michigan. This assignment deadline, given 30 days, is March 24, 2005. The Subcommittee is pleased to report back on this issue in a timely manner.

Testimony was received from the Michigan Public Service Commission and from the Telecommunications Association of Michigan (TAM).

Local calling areas has been a notable topic of discussion since the passage of the 2000 changes to the Michigan Telecommunications Act. A Senate Floor amendment was included to make adjacent areas called a "local call." Section 304 (11) of the Michigan Telecommunications Act states: "A call made to a local calling area adjacent to the caller's local calling area shall be considered a local call and shall be billed as a local call." Smaller companies (less than 250,000 end users in Michigan), however, were exempted from this provision. Verizon and SBC implemented this legislative objective without an increase in rates.

Due to the competitive nature of the business, the smaller companies began implementing the provision. Only two companies (Climax and Barry County) were able to accomplish this without rate increases for the additional costs involved. Many of the other companies have applied to the Michigan Public Service Commission for plan approval to offer expanded local calling options to customers at increased rates. To date, 24 companies have been approved; one application is currently pending; two companies filed but were rejected by the MPSC; and nine companies have not yet filed.

It is the recommendation of the Subcommittee that the status of the companies with pending applications and those with applications not yet filed be again reviewed by the subcommittee in 90 days.

Respectfully,

John P. Garfield

John Garfield
Chairman
Telecommunications Sub-Committee

The Development of Expanded Local Calling in Michigan

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Early History

- 1989 – Case No. U9153 – The MPSC begins an investigation of Extended Area Service (EAS) and the scope of local calling for telephone companies.

Some Programs and Ideas Considered Include:

A. The Uniform Calling Area Plan – Allow each customer to call within a 30 mile radius of the local exchange on a non-optional basis without incurring toll charges.

B. The EAS Adder Plan – Leave existing EAS arrangements intact but approve new ones when a community of interest determination is made based on calling patterns. Cost would be recovered by increasing rates.

C. The Bulk Purchase Plan – Allow customers to buy minutes under a discount rate to a particular exchange. Commission concluded that Michigan Bell and GTE should file plans which take into account optional plans including the following:

1. Calls to nonadjacent exchanges
2. Calls to nonadjacent exchanges within 15 or 30 miles of the home exchange.
3. At least one option for a flat rate alternative.
4. Per call, per minute as well as time of day discount.
5. Block-of-time or volume discounts could be proposed, specifically considering residential customers, and
6. Plans were to be available to residential customers only.

Finally, the MPSC approved ½ hour and 2-hour toll plans and an unlimited calling toll plan for residential customers. Most of the calling plans were implemented by August 19, 1991 and customers were able to buy service plans which allowed them to call exchanges they needed to reach, *i.e.*, schools, banks, etc.

Michigan Telecommunications Act (MTA)

- 1991 – The Legislature enacted the Michigan Telecommunications Act (1991 PA 179)
  - The MTA codified the MPSC Order in Case No.U-9153.
  - The MTA also required all toll providers to offer an optional 20 mile toll calling plan to be in place no later than April 1, 1992.
- 1995 – The MTA was amended (1995 PA 216)
  - The 1995 amendment left unchanged the existing provisions governing calling plans.
- 2000 – The MTA was amended (2000 PA 295)
  - Section 304(11)
    - "A call made to a local calling area adjacent to the caller's local calling area shall be considered a local call and shall be billed as a local call."

- Section 312
  - Continued the scheme established by the MPSC in Case No. U-9153, *i.e.,* provision of optional discount plan for calling exchanges within 20 miles of customer's home exchange.

- May 15, 2001 MPSC issued an implementation Order stating as follows:

  A. Competitive local exchange carriers may mirror the expanded local calling areas of the relevant incumbent local exchange carrier.
  B. Implementation of intraLATA expanded local calling areas shall be complete for billing purposes no later than October 31, 2001.
  C. Implementation of interLATA expanded local calling shall be completed for billing purposes no later than August 31, 2002 where permitted by law.

D. The Commission Staff shall convene industry-wide meetings to address remaining issues related to expeditiously implementing expanded local calling areas as required by MCL 484.304(11); MSA 22.1469(304)(11) and the February 5, 2001 order.

D. Within 30 days, Ameritech Michigan and Verizon North Inc. and Contel of the South, Inc., d/b/a Verizon North Systems, shall each file an updated matrix showing the exchanges for which local calling will be altered and the time for completion of the conversion to the new calling area. That information shall be kept up to date and made available to the public.

E. Within 10 days, those nonexempt providers that have not filed an implementation plan shall file a statement that either adopts the plan of the relevant incumbent local exchange carrier or states the specific deviations from that plan that the provider finds necessary, together with the reasons for any deviations.

- Initially, some CLECs filed for and obtained exemptions to comply with Section 304(11). Generally, CLECs have mirrored or adopted the same local calling areas as SBC and Verizon. All of the 36 small incumbent LECs obtained exemptions.
- As SBC and Verizon's customers experienced expanded local calling areas and customers of exempted companies were paying toll charges for calls to SBC and Verizon local calling areas, the exempted companies were under some pressure to begin to consider offering local calling to adjacent and non-adjacent exchanges of their customers.
- In addition, the growing popularity of cell phones has added some pressure for companies to expand their local calling areas.
- Consequently, beginning in January 2002, the exempted companies, staring with Drenthe Telephone companies began filing applications with the MPSC for approval of expanded local calling areas.

- The LECs previously exempted from required compliance with Section 304(11) were allowed to recover their costs associated with implementing expanded local calling. The Commission established a pattern of approving only plans that included unlimited expanded local calling or a minimum 2000 minutes of use to the newly expanded areas of local calling. The plans with 2000 minute caps include a per minute charge for calls in excess of the 2000 minute cap.
- The Commission dismissed Island Telephone Company's application (U-13643) because the increase in rates was not a good value for customers with only 200 minutes of calling to the company's planned expanded local calling area. The Commission also dismissed U-13603, Frontier Telephone Company's application when the company offered only 500 minutes of calling to the expanded local calling area. This application also drew a large number of comments opposing the application
- Chapin Telephone Company filed to expand its local calling to adjacent exchanges on February 17, 2005. Barry County Telephone Company and Climax Telephone Company expanded their local calling areas to include adjacent exchanges without rate adjustments and therefore do not have corresponding Docket Numbers

- Orders approved by the Commission including rates for minutes of use over a 2000-minute cap for calls into the expanded areas where applicable.

Status of Local Calling Area Expansion Cases[1]

Company Name	Case U #	Date of Order	Approved or Rejected	Increased Rates Approved [5]	Cap[2]
Drenthe	13263	4/16/02	A	$4.95 R, B	Flat
Allendale	13436	8/20/02	A	$3.18 R, $3.82 B	Flat
Deerfield	13449	9/16/02	A	$6.07 R, $7.28 B	Flat
Ace	13489	10/3/02	A	$4.50 R, $5.59 B	Flat
Bloomingdale	13515	11/7/02	A	$4.85 R, $5.82 B	$0.04
Waldron	13533	12/6/02	A	$3.17 R, $3.80 B	$0.04
Westphalia	13605	1/21/03,5/2/03	R,A	$6.27 R, $7.52 B	$0.04
Ogden	13606	1/21/03	A	$3.41 R, $4.09 B	$0.045
Frontier	13603	1/21/03,5/2/03	R,R		
Lennon	13529	2/5/03	A	$5.24 R, B	Flat
Island	13643	2/20/03	R		
Carr	13760	7/8/03,9/30/03	R,A	$4.42 R, $5.30 B	$0.04
Sand Creek	13625	2/12/04	A	$1.73 R, $2.08 B	$0.04
Winn	14105	6/29/04	A	$8, $1, $1 R, B	$0.04[3]
Century Tel of Upper Michigan	14157	9/7/04	A	$2.67 R, B	$0.03
Century Tel of Northern Michigan	14158	9/7/04	A	$1.91 R, B	$0.03
Century Tel of Michigan	14159	9/7/04	A	$4.06 R, B	$0.03
CenturyTel Midwest-Mich.	14160	9/7/04	A	$4.95 R, B	$0.03
Pigeon	14195	10/4/04	A	$6.00 R, $7.20 B	$0.05
Chatham Telephone Company	14371	2/24/05	A	$2.52 R, B	Flat
Shiawassee Telephone Company	14372	2/24/05	A	$2.23 R, B	Flat
Wolverine Telephone Company	14373	2/24/05	A	$2.45 R, B	Flat
Blanchard Telephone Company	14381	2/28/05	A	$8.00, $1.00 R, B [4]	$0.05

Data on this table is current as of 2/28/2005

[1] Barry County and Climax Telephone Companies expanded their local calling areas to include adjacent exchanges without rate adjustments and, therefore, do not have corresponding Case Numbers.

[2] If there is a cap on the number of free minutes of calling to expanded calling area exchanges, the cost per minute of calling over the cap, 'flat' indicates there is no charge for local calls to expanded exchanges regardless of the number of minutes used.

[3] The company is allowed to come in for the following two years for an additional $0.01 per year.

[4] The company is allowed to raise rates $8.00 immediately, and $1.00 in 18 months.

[5] R indicates a residential rate increase; B represents a business rate increase.

Companies Without Adjacent Exchange Local Calling – Section 304(1)

	Needs Change for Adjacent Exchange Local Calling
BARAGA TELEPHONE COMPANY	
Alston Exchange	XXXXX
Baraga Exchange	XXXXX
L Anse Exchange	XXXXX
Tapiola Exchange	XXXXX
CCM TELEPHONE COMPANY (TDS)	
Augusta Exchange	XXXXX
Clayton Exchange	XXXXX
Hickory Corners Exchange	Has EAS to Adjacent Exchanges
CHAPIN TELEPHONE COMPANY	Application Pending
Chapin Exchange	
CHIPPEWA COUNTY TEL CO	
Brimley Exchange	XXXXX
KALEVA TELEPHONE COMPANY	
Brethern Exchange	XXXXX
Kaleva Exchange	XXXXX
Wellston Exchange	XXXXX
Dublin Exchange	XXXXX
SPRINGPORT TELEPHONE COMPANY	
Springport Exchange	XXXXX
UP TELEPHONE COMPANY	
Amble Exchange	XXXXX
Came Exchange	XXXXX
Chester Exchange	XXXXX
Donken/Isle Royale Exchange	XXXXX
Drummond Island Exchange	XXXXX
Faithorn Exchange	XXXXX
Feich Exchange	XXXXX
Fence River Exchange	XXXXX
Grace Harbor Exchange	XXXXX
Lake Gogebic Exchange	XXXXX
Manistee River Exchange	XXXXX
Marenesco Exchange	XXXXX
Michigamme Forest Exchange	XXXXX
North Land of Lakes Exchange	XXXXX
Rexton Exchange	XXXXX
Scott Point Exchange	XXXXX
Smokey Lake Exchange	XXXXX
Wallace Exchange	XXXXX
Watson Exchange	XXXXX

HIAWATHA TELEPHONE COMPANY	
Deer Park Exchange	XXXXX
Eckerman Exchange	XXXXX
Grand Marais Exchange	XXXXX
Hiawatha Forest Exchange	XXXXX
Hulbert Exchange	XXXXX
Munising Exchange	XXXXX
Paradise Exchange	XXXXX
Seney Exchange	XXXXX
Shingleton Exchange	XXXXX
CHIPPEWA COUNTY TELEPHONE COMPANY	
Brimley Exchange	XXXXX
MIDWAY TELEPHONE COMPANY	
Golden Lake Exchange	XXXXX
Trout Creek Exchange	XXXXX
Watton Exchange	XXXXX
ONTONAGON TELEPHONE COMPANY	
Bruce Crossing Exchange	XXXXX
Ewen Exchange	XXXXX
Mass/Greenland Exchange	XXXXX
Ontonagon Exchange	XXXXX
Rockland Exchange	XXXXX
White Pine Exchange	XXXXX

TELECOMMUNICATIONS
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Testimony of Scott Stevenson
President, Telecommunications Association of Michigan

House Energy & Technology Telecommunications Subcommittee
March 2, 2005

Good morning Chairman Garfield and members of the subcommittee. The Telecommunications Association of Michigan represents 150 companies, including three dozen providers of services ranging from local calling to broadband and video services. These companies are very interested in seeing the Michigan Telecommunications Act (MTA) updated to reflect the many changes that have impacted our industry over the past few years. Or, as we have been saying, it's time to work the kinks out of the MTA.

The issue before you today, expanded local calling mandates, provides an interesting example of how the MTA is falling behind customers and technology. My testimony will provide a background on the history and current status of expanded local calling in Michigan and will also touch on the policy implications of leaving these sorts of arbitrary requirements in place on companies who want to make investments in our state's network infrastructure.

Background

The MTA was amended in 2000 to require companies with more than 250,000 customers—SBC and Verizon—to provide "expanded local calling." Expanded local calling means that customers would be able to make local calls to exchanges that are adjacent to the customer's home exchange. The term "exchange" generally refers to the geographic area served by a telephone company's central office. In Michigan, some telephone companies serve only one exchange and others serve multiple exchanges.

The amendment was intended to ensure that customers would not have to pay long distance charges when calling local government offices, schools, and other important numbers. However, the amendment was written in a way that went beyond the original intent and instead required expanded calling to every number in adjacent exchanges.

SBC and Verizon were required to expand their local calling areas with no opportunity to recover the revenues that would be lost by giving away for free what used to be long distance calls. SBC estimated at the time that it would lose approximately $30 million annually because of this policy decision.

Companies with fewer than 250,000 customers were given a choice: either expand their local calling areas or freeze prices at May 1, 2000, levels. This amendment provided relief to customers in the form of a price freeze while it protected small companies from disproportionate revenue losses from expanding their local calling areas. The regulatory structure these companies operate under was designed to keep local prices affordable for all customers in sparsely populated areas by, among other methods, collecting much of their revenue from heavy users of long-distance services. The price freeze compromise took this into account.

Status Report

Approximately 99.5% of the state's customers are covered by expanded local calling plans. Of the 36 telephone companies represented by the Telecommunications Association of Michigan:

- 24 have expanded their local areas
- 2 companies filed plans that didn't get approved after customers said they didn't want them
- 1 company has a plan under consideration at the MPSC
- 9 companies have not filed plans (leaving the price freeze in place)

Because every telephone company is different, there has been no standard template used when applying for expanded local calling, with one notable exception. Every plan filed by members of the Telecommunications Association of Michigan has either been revenue neutral or resulted in a loss of revenues for the company. In other words, at most, companies simply sought to replace the revenues they were losing by changing long distance calls to local calls.

Each company has come forward with a plan based on its own unique demographic, geographic and historical set of factors. For example, some companies expanded their calling areas with no additional charges while others raised local prices to replace all or part of their lost long distance revenues. In many cases, companies were able to expand their calling areas beyond adjacent exchanges in order to include actual communities of interest based on their customers' calling patterns.

In the two instances where companies filed plans that were not wanted by customers, it turns out that calling into adjacent exchanges was of little interest to customers. In MPSC Case No. U-13603, an application filed by Frontier Communications, the MPSC noted that "*a number of customers say that they have little interest in paying for the ability to call areas that are predominately rural and of little interest to them.*" In a survey conducted by Frontier of its customers, a full 2/3 of the more than 4,200 respondents said they didn't support the plan.

Customers objecting to the Island Telephone Company's application (MPSC Case No. U-13643) expressed similar sentiments. According to the MPSC's Order, "*any benefit to customers is likely to be limited to the very few with high MOU (minutes of use) for calls to the expanded area. Thus, the proposal would likely leave the majority suffering a detriment to support a questionable benefit for the very few.*"

Policy Implications of Arbitrary Mandates

The MTA's expanded local calling mandate highlights one of the many challenges facing Michigan's communications industry. Government-imposed mandates in the MTA are increasingly putting our state's providers at a competitive disadvantage over rivals who aren't regulated.

In addition to expanded local calling, the MTA contains a whole series of rate plans regulated companies are expected to be able to offer their customers. Here's the actual language from Section 304b:

> Sec. 304b. (1) A provider of basic local exchange service shall develop and offer various rate plans that reflect residential customer calling patterns that shall include, but not limited to, all of the following at the option of the customer unless it is not technologically feasible:
>
> (a) A flat rate allowing unlimited personal and domestic outgoing calls.

(b) A flat rate allowing personal and domestic outgoing calls up to 400 calls per month per line. Calls in excess of 400 per month may be charged at an incremental rate as set by the provider under section 304. If a customer has more than 1 line at the same location that appears on the customer's bill, the allowable calls under this subdivision shall be a aggregate of all the lines regardless from which line the calls originate. A person with disabilities or who is voluntarily providing a service for an organization classified by the internal revenue service as a section 501(c)(3) or (19) organization, or a congressional chartered veterans organization or their duly authorized foundations, is exempt from the 400 calls per month. A person exempt from the call cap under this subdivision shall not be charged a rate greater than the flat rate charged other residential customers for 400 calls.

(c) A flat rate allowing personal and domestic outgoing calls of not less than 50 nor more than 150 per month, per line. Providers may offer additional plans allowing personal and domestic outgoing calls of not less than 150 month nor more than 400 per month, per line. Calls in excess of upper per call limit per month may be charged at an incremental rate as set by the provider under section 304. If a customer has more than 1 line at the same location that appears on the customer's bill, the allowable calls under this subdivision shall be the aggregate of all the lines regardless from which line the calls originate.

(d) A rate determined by the time duration of service usage or the distance between the points of service origination and termination.

(e) A rate determined by the number of times the service is used.

(f) A rate that includes 1 or more of the rates allowed by this section.

(g) A rate that includes toll-free calling to contiguous Michigan local calling exchanges.

These arbitrary mandates seem a little odd given the many technological changes have taken place since the 2000 MTA rewrite. In just the past year, an Internet-based technology known as VoIP (Voice over Internet Protocol) has been hailed as the service that will revolutionize the industry. Cable TV companies and others are aggressively rolling out VoIP services in large part because they are unregulated. VoIP providers don't have to comply with the MTA at all. The same is true for wireless services. And since there are almost 1,000,000 more wireless lines in Michigan than lines served by all incumbent local telephone companies combined, there can be no debate about the reality of wireless competition.

The companies I represent still have that pioneering spirit that led them to build Michigan's telecommunications networks. They don't shy away from new technologies, they embrace them. Our companies are working overtime to attract and retain customers who have more communications options to choose from than ever before. But when their competitors face little or no regulation under either state or federal law, the challenges mount quickly.

By imposing the expanded local calling mandate along with requirements to offer a whole series of arbitrary calling plans, Michigan's companies have to spend valuable time and money complying with regulations that have little substantive basis for existing. The end result is that companies with substantial investments in Michigan face higher costs of doing business than competitors with little or no physical presence in the state. Put in terms of our MTA kinks, that creates barriers to investment in infrastructure and regulations that limit the provision of innovative services.

When the issues get boiled down to basics, companies that are forced to spend money on regulatory compliance have less money to spend on infrastructure. For a state where very few competitors invest in

their own networks, the implications of reduced investments by companies that do maintain significant infrastructure are troubling. And companies that have to comply with a checklist of price plans mandated by the government will have fewer resources available to roll out the innovative services that customers want. It's a little like being required to maintain a 10-year old computer when today's software is being built for entirely different operating systems.

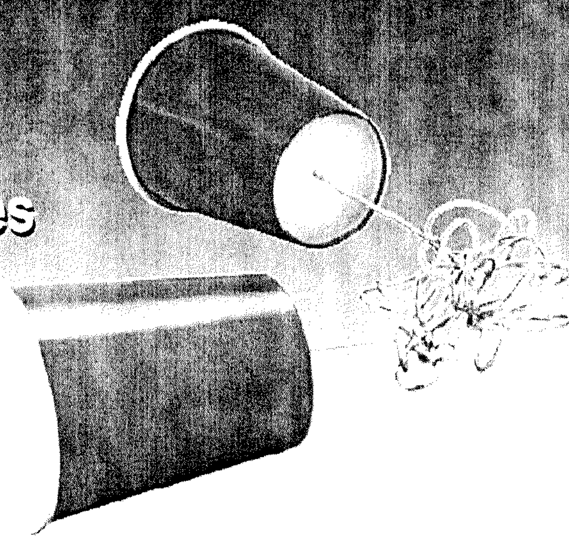
My organization is interested in working with you to look at these and other sections of the MTA to make sure they still make sense in today's communications industry. We believe the MTA is fundamentally sound, but there are kinks developing that can be worked out to keep Michigan at the forefront of progressive telecommunications policymaking.

Policy Implications of Arbitrary Mandates

- Examples of outdated/unfairly applied mandates in the MTA:
  - Expanded local calling
  - 400 call plan
  - 50-150 call plan
  - Minute of use plan
  - "Distance between the points of service origination and termination" plan
  - Toll free calling to contiguous exchanges

Policy Implications of Arbitrary Mandates

- Technology has changed industry dramatically since 2000 rewrite
- Companies with substantial investments in Michigan facing competitive disadvantages
- Mandates create "kinks" in the MTA
  - Barriers to investment in infrastructure
  - Regulations that limit innovative services



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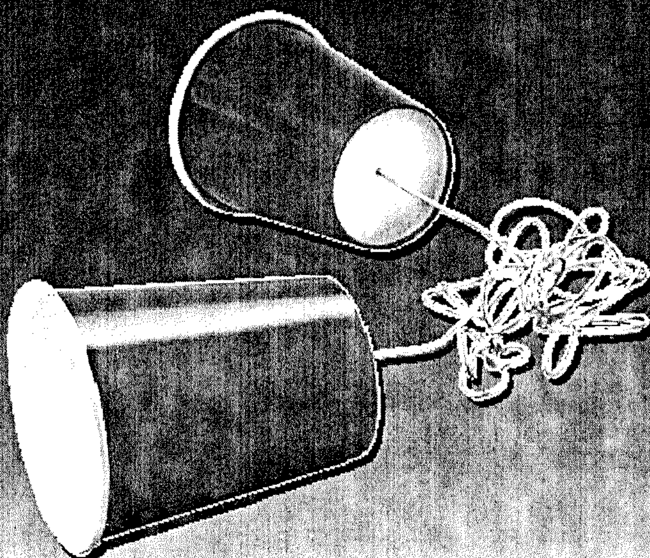
Need to Work Out The "Mandate" Kinks

Update the MTA by:



- Recognizing that the industry has changed since the 2000 rewrite.
- Recognizing that regulating some companies more heavily than their competitors puts them at a disadvantage.
- Recognizing that regulatory compliance costs reduce the financial resources companies have to invest in new technologies.
- Eliminating outdated, arbitrary mandates.

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EXPANDED LOCAL CALLING AREAS

Status Report and Policy Implications

Presented by Scott Stevenson

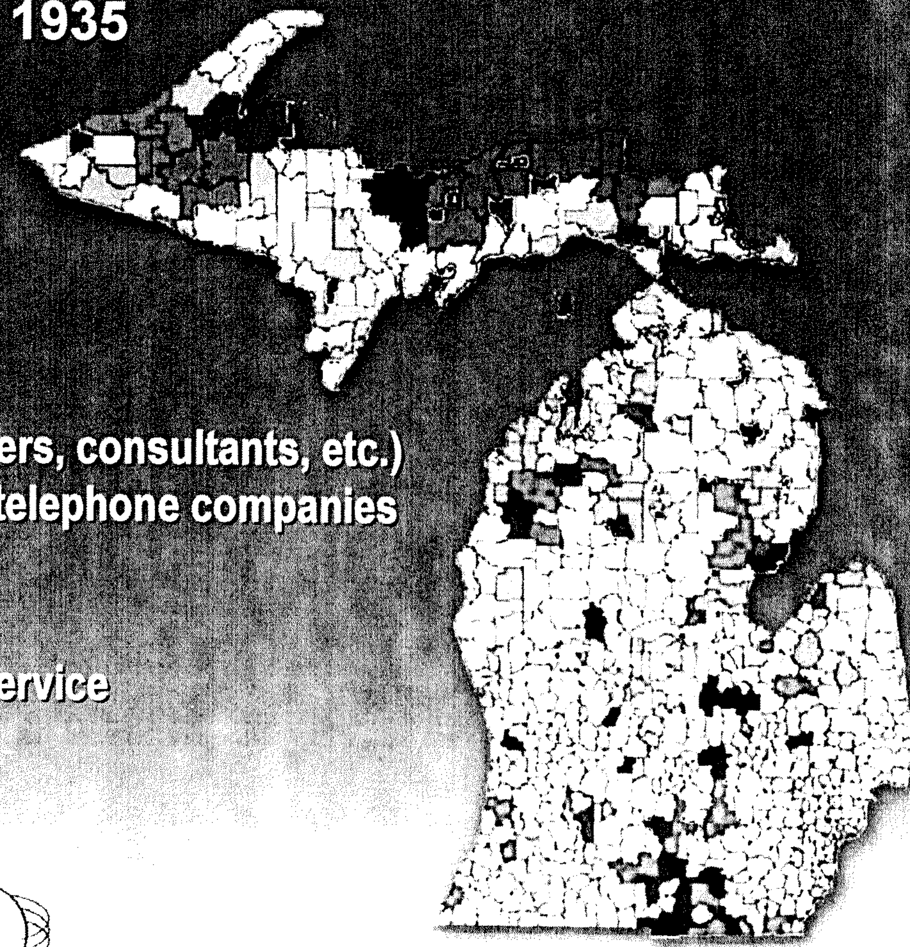
March 2, 2005

TELECOMMUNICATIONS

ASSOCIATION OF MICHIGAN

Who Is The Telecommunications Association?

- Trade Association Founded in 1935
- Provides:
  - Public policy advocacy
  - Educational programming
- Members are:
  - 120 allied members (vendors, suppliers, consultants, etc.)
  - 36 incumbent and competitive local telephone companies
- Member Service Offerings:
  - Local and long distance telephone service
  - Broadband services
  - Wireless services
  - Cable television services
  - Specialized business services



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TAM Members' Economic Impact

- $11 billion — invested in infrastructure
- 15,000 — workers employed
- $750 million — annual payroll
- $370 million — annual tax payments
- $5 million — annual charitable contributions

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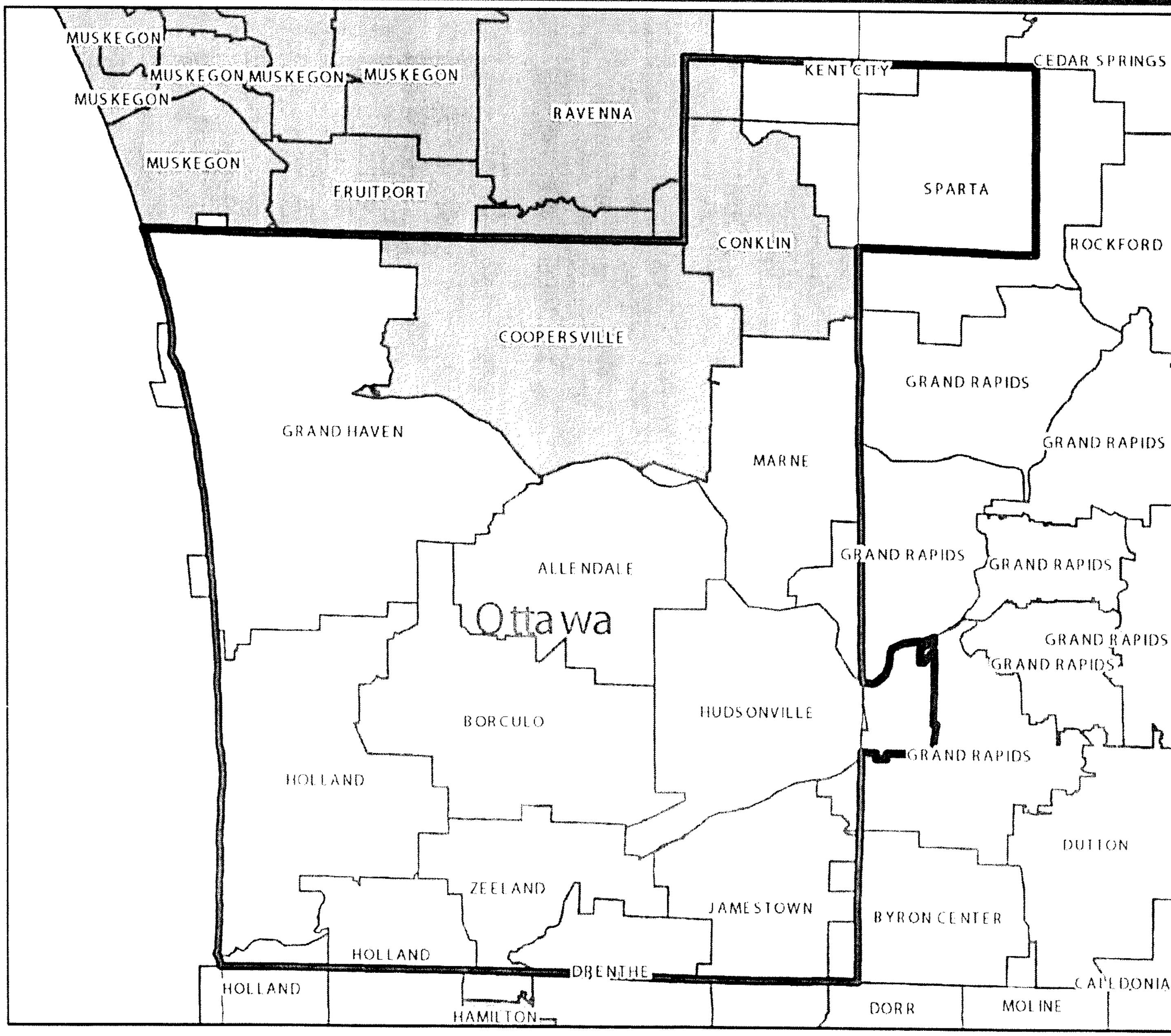
What Is An Exchange?



Michigan County

ALLENDALE TEL CO

CENTURY TEL

VERIZON

DRENTHE TEL CO

SBC - AMERITECH

TELECOMMUNICATIONS

Expanded Local Calling Mandate

- SBC and Verizon required to implement expanded calling without recovering lost revenues
  - $30 million annual revenue loss for SBC
- Small providers given two options:
  - Freeze basic service prices at May 1, 2000 level, or
  - Expand local calling areas

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Current Status Report for TAM Members

- 99.5% of state's customers have expanded calling areas
  - 24 companies have expanded their calling areas
  - 1 company has a plan pending at MPSC
  - 2 companies filed plans but learned that customers didn't want them
  - 9 companies have not filed plans

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One Size Fits All?

- Every plan is different, except for one key fact:
  - No company sought more than revenue neutrality
- Most companies simply sought to recover all or part of the revenues they would lose by changing long distance calls to local.

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One Size Fits All?

- Companies based their plans on:
  - Demographic considerations
  - Geography
  - Regulatory history
- Many companies offered expanded calling to more than just adjacent exchanges—they included actual communities of interest
  - Customers fared better than they would have under the MTA's strict mandate.

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One Size Fits All?

- **Not all customers want expanded calling plans**
  - "...a number of customers say that they have little interest in paying for the ability to call areas that are predominately rural and of little interest to them."

    (MPSC Order, Case No. U-13603, Frontier Communications)
  - "...any benefit to customers is likely to be limited to the very few with high MOU (minutes of use) for calls to the expanded area. Thus, the proposal would likely leave the majority suffering a detriment to support a questionable benefit for the very few."

    (MPSC Order, Case No. U-13643, Island Telephone Company)

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Policy Implications of Arbitrary Mandates

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Provided by TELECOMMUNICATIONS ASSOCIATION OF MICHIGAN

The "Kinks"

Barriers to Investment in Infrastructure -
Outdated regulations that don't fit today's telecom ind... ...e kinks put companies that want to invest in Michigan at a competitive disadvantage

Arbitrary Mandates

Regulations that Limit Innovative Services -
The dramatic advance of technology has outpaced the ... sion of ... k in the system, keeping local telecom companies from offering creative solutions to customer needs or problems. These kinks are disincentives to lower prices and can delay the introduction of new services.

Government Competition -
When local governments and other taxpayer-funded organizations offer telecommunications services, they squeeze out private sector innovation and investment in infrastructure. This kink hurts consumers because governments don't have to keep costs down; they just throw more good tax dollars after bad decisions.

Complicated Taxes and Red Tape -
Taxes and red tape that only apply to certain technologies lead to confusion and frustration for consumers, telecom companies and even regulators. These kinks stifle innovation and competition and make it difficult to sustain important services like 911

Done